

## CHAPTER 13

### STATE INSTITUTIONS

#### INTRODUCTION

Correctional, Mental, and Special Institutions of the State of Indiana each operate as a separate entity as well as a division within a state agency for accounting purposes. Accounting for funds is handled through the Auditor of State system, except for certain local funds which will be discussed in greater detail below.

#### INTERNAL CONTROLS

Institutions should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are part of the internal control system.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and monthly reports, and incorrect decision making.

#### ACCOUNTABILITY FOR FUNDS

At all times, the manual and computerized records, subsidiary ledgers, the control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund to the extent allowable under IC 4-24-6-9.

Expenditure of funds must be reasonable and necessary for the operation of the agency, office or department obtaining the goods or services. Payments for items not reasonable and necessary for the operation of the agency or for items personal in nature are prohibited. Officials may be held personally accountable for the improper expenditure of state or local funds.

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, etc., must be available for audit to provide supporting information for the validity and accountability of monies disbursed.

Audit costs incurred because of theft or shortage may be the personal obligation of the responsible employee.

#### LOCAL FUNDS

The Indiana Code authorizes institutions to maintain accounts outside of the Auditor of State system for certain funds. These funds are commonly known as Trust Funds, Recreation Funds, and Commissary Funds. In general, the accountability over these funds is covered in IC 4-24-6, although individual institutions may have more specific statutes to supplement these provisions. No funds may be accounted for outside of the Auditor of State system without specific statutory authority.

## TRUST FUND

Trust Funds consist of monies held for the use and benefit of, or belonging to patients, students, members, or offenders while they are residing in the institution. Indiana Code 4-24-6-2 requires the superintendent of the institution to keep an accurate accounting of the receipts and disbursements of Trust Funds on books and records in accordance with the accounting procedures prescribed by the State Board of Accounts.

### Specific Accounting Procedures

Individual subsidiary accounts must be kept for each patient, student, member, or offender detailing transactions to the individual account and showing an exact record of the balance on hand. At a minimum, the detail should consist of the transaction date, type of transaction, check or receipt number, amount of transaction, and resulting balance on hand. A control account consisting of the total fund transactions and balances should also be maintained. To ensure accuracy, the control account and individual subsidiary accounts are to be reconciled to each other and to the bank statement on a monthly basis.

The interest earned on the Trust Fund balance should be transferred to the Recreation Fund on a monthly or quarterly basis.

Individual accounts should not be allowed to incur a negative balance. Per IC 4-24-6-9, such losses must be covered by a general blanket performance bond or crime insurance policy. If the facility is unable to collect from the bond, it should try to receive reimbursement from the responsible patient, student, member or offender. If all efforts fail, then the agency should request reimbursement from the institution's operating account.

Checks and receipts should be prepared timely and not signed in advance of the event or transactions. All checks and receipts must be prenumbered or sequentially numbered by computer when issued. Documents should be used in sequential order.

Trust Fund receipts should be deposited daily in accordance with IC 5-13-6-1.

## RECREATION FUND

The Recreation Fund was established in IC 4-24-6-6 to collect and disburse funds for the direct benefit of patients, students, members, or offenders of the institutions. The funds are to be used at the discretion of the superintendent, subject to the policies and approval of the agency having administrative control over the institution, for the direct benefit of persons who are offenders, patients or students, and shall not be used for any purposes which are covered by state appropriations. Officials or employees may be held personally accountable for the improper expenditure of Recreation funds. Sources of the Recreation Fund, listed in IC 4-24-6-7, are:

- (1) Gifts to the fund.
- (2) Profits from the operation of a commissary or canteen.
- (3) Interest earned by deposit of trust funds in public depositories, or income derived from trust funds invested in United States government securities, except as not applicable under IC 4-24-6-4.
- (4) Sale of items produced in occupational therapy.
- (5) Income derived from any kind of benefit entertainment for the offender or patients.

- (6) Any other money derived from any source that is not legally prohibited.
- (7) Any money derived from the income of any trust fund which has been deposited in any special fund of the institution.

### Specific Accounting Procedures

A complete record of all receipts and disbursements must be maintained in a Recreation Fund ledger. Subsidiary accounts for specific sources and/or uses of funds may be established for ease of accountability. If subsidiary accounts are maintained, transactions should be detailed to show the transaction date, type of transaction, check or receipt number, amount of transaction, and resulting balance on hand. The number of subsidiary accounts should be limited to no more than necessary to reasonably account for the funds. Inactive subsidiary accounts should be closed and the remaining balance combined with the unrestricted subsidiary account. In addition, a control account consisting of the total fund transactions and balances should also be maintained. To ensure accuracy, the control account and individual subsidiary accounts are to be reconciled to each other and to the bank statement on a monthly basis.

Each Recreation Fund disbursement should be documented with the following information:

1. Purpose for the disbursement.
2. Person and department requesting the purchase.
3. Date requested.
4. Date paid, amount of payment, and check number.
5. Written approval of the superintendent or designee.
6. Vendor invoice.
7. Verification that the goods were received.

Special consideration should be given to the appropriate types of disbursements to be made from this fund as shown in IC 4-24-6-6.

Equipment purchases should be itemized and added to the Institution's and/or the Auditor of State Fixed Asset Inventory in compliance with state fixed asset policies (See Chapter 10).

All vending machine profits and commissions are to be deposited into the Recreation Fund.

Recreation Fund receipts should be deposited daily in accordance with IC 5-13-6-1.

Checks and receipts should be prepared timely and not signed in advance of the event or transaction.

### INVESTMENT OF FUNDS

Indiana Code 4-24-6-2 requires that Trust and Recreation funds be deposited in depositories whose deposits are insured by the Federal Deposit Insurance Corporation or invested in government securities of the United States.

Investments must be itemized on the monthly financial report submitted to the agency having administrative control over the institution. In addition to the monthly report, if an agency has several investments, an investment ledger may be necessary to properly account for the principal and interest. At a minimum, an agency must record all amounts in its records and reconcile these amounts on a monthly basis.

## COMMISSARY FUND

Commissary Funds, also known as Canteen Funds, are used to account for receipts and disbursements associated with a commissary operation. Commissary Operations vary greatly depending on the type of institution involved, as discussed below.

### General Accounting Procedures

A ledger should be maintained to record the transaction date, type of transaction, check or receipt number, amount of transaction, and resulting balance on hand. Each month the ledger is to be reconciled to the bank statements and the profits should be calculated. A reasonable amount of the profits should be transferred to the Recreation Fund at least quarterly.

Operational procedures should be developed by institutions operating canteens with cash sales to ensure that a full and accurate accounting of the Canteen Funds is maintained. The procedures should establish a method of verifying that all receipts are deposited to the Canteen Fund and that disbursements are proper for the fund.

Commissary Fund receipts should be deposited daily in compliance with IC 5-13-6-1.

### Commissary Fund (Department of Correction Institutions)

The Commissary provides offenders the opportunity to purchase items not provided by the institution. Commissaries are to be operated exclusively for the benefit of offenders. In order to ensure accountability in the operation of commissary activities, the following procedures should be used:

1. Orders should be taken on a weekly basis for items that can be purchased from the commissary vendor.
2. The offender completes a commissary scan sheet. The sheet should be sent directly to the commissary vendor. The sheet should be scanned by the commissary computer system, which has access to every offender's current Trust Fund balance. The computer system should automatically determine if there are enough funds in the offender's Trust Fund account. If the offender does not have enough funds to cover the entire order, the computer system should automatically reduce the offender's order to the amount in the offenders' Trust Fund account. If the offender does not have any funds in their Trust Fund, the total order should be rejected.
3. The commissary vendor's computer system automatically notifies the institution of the total amount of the filled commissary orders. The Trust Fund Department must reconcile the amount charged by the commissary vendor with the order sheets.
4. A check made payable to the Recreation Fund for the total commissary sales should be written from the Trust Fund checking account and deposited into the Recreation Fund checking account.
5. A check made payable to the commissary vendor for the total commissary sales, less the 10% commission, should be written from the Recreation Fund checking account.
6. Once the commissary order is received by the institution, the institution must verify that the order is correct and should notify the commissary vendor of any missing items.

7. Credits for missing items should be properly posted to the correct offender's Trust Fund account as soon as the institution becomes aware of the credit.

#### Canteen Fund (Division of Mental Health Institutions)

Canteen Funds should be handled similarly to Commissary Funds. However, instead of ordering items, patients order "coupons" to be redeemed in the Canteen. The Business Office should reconcile the cash and redeemed coupons to the Canteen Manager's Report prior to deposit. Cancelled coupons should be retained for audit by the State Board of Accounts.

#### Canteen Fund (Special Institutions)

At the Special Institutions (schools), the students are allotted a daily amount that they may withdraw from their trust funds. They are then allowed to purchase items from the canteen fund. The canteen fund should have a cash register, which is used to ring up every purchase. At the end of the day, the cash register should be Z'd out. The funds in the cash register should be reconciled to the Z report. A report should be completed, showing the reconciliation, the day's sales and the day's deposit. A specific change balance should be maintained in the cash register. Profits should be transferred to the Recreation Fund at least quarterly. An inventory of all items should be maintained and at the end of the month, a physical inventory should be taken and documented. The Business Administrator should prepare the Canteen Fund Balance Sheet on a monthly basis. It should include the following:

- Statement of Changes in Fund Balance
- Bank Reconciliation Statement
- Canteen Fund Detail of Receipts and Disbursements
- Commissary Fund Operating Statement
- Application of Net Income

#### MONTHLY FINANCIAL INFORMATION

Each institution should file monthly financial statements for its local funds with the state agency having administrative control over the institution. Institutions must use the official approved form applicable to their state agency. Changes may not be made to the approved form without approval of the State Board of Accounts.

#### MAINTENANCE FUNDS

Indiana Code 12-24-13-4 provides that each patient or his responsible party is liable for the cost of treatment and maintenance in a state developmental center or mental hospital under the administrative control of the Family and Social Services Administration (FSSA). Maintenance Funds are used to account for the collection of these charges. Collections consist of receipts from the patient or responsible party, private insurance, and Medicare. Medicaid is also billed by the institution but collected by FSSA. Collections are to be deposited daily in a designated public depository. Each month, all money collected shall be forwarded to the Treasurer of State to be deposited in the Mental Health Fund.

#### General Accounting Procedures

Individual subsidiary accounts must be kept for each patient detailing all transactions to the individual accounts and showing an exact record of the resulting account balances. A control account should be maintained showing the total fund transactions and resulting fund balance. Accurate balances of amounts due from patients or responsible parties, private insurance, and Medicaid and Medicare must be maintained. To

maintain proper accountability, the individual subsidiary accounts must be balanced to the control account monthly. The control and individual subsidiary accounts should be reconciled to the bank statement monthly.

Receipts for the Maintenance Fund should be deposited daily in compliance with IC 5-13-6-1.

Indiana Code 12-24-14-4 requires that on the first day of each month, or within three (3) days thereafter, all money deposited shall be forwarded to the Treasurer of State to be deposited in the Mental Health Fund. The institution should properly complete a Report of Collection and submit it together with a check made payable to the Treasurer of State.

### Billing Procedures

Institutions have the responsibility of obtaining complete financial information during the admission process and to ascertain whether reimbursement will be made under personal payment responsibility, insurance coverage or eligibility for entitlements.

The Patient Accounts Office at each institution is responsible for the proper, complete and timely billing of charges. The billings to Medicaid, Medicare or private insurance should be done on a monthly basis. Billings to the patient or responsible party should be done monthly, quarterly, or as otherwise arranged in the patient's maintenance agreement. Collections received should be reconciled to charges billed on a monthly basis.

Per current FSSA procedures, following patient discharge, all open accounts with unpaid balances are to be continuously billed for five months. After six months, the account may be transferred to FSSA's Reimbursement Section for continued collection efforts, or subsequent write-off upon consent of the Governor and Attorney General's office.

### CAFETERIA COLLECTIONS

Effective September 1, 2005, employees, visitors, and guests consuming a meal in a state institution cafeteria, dining room, or other venue providing food service to the institution, will be charged the direct costs of the meal (includes the cost of food plus labor) for each meal provided. The Superintendent of each institution is responsible for calculating and revising these costs on an on-going basis. The institution should account for meal sales using meal tickets. To ensure the accountability over meal ticket sales, the following procedures are to be used:

1. All meal tickets must be prenumbered and issued in sequence.
2. A ledger must be maintained which includes the date, ticket numbers, and amount collected.
3. Collections shall be reconciled to the ledger for agreement and deposited daily in compliance with IC 5-13-6-1.
4. At month end, a bank reconciliation is to be performed.
5. Collections for the month are to be deposited as a refund of expenditure to the institution's General Fund fund/center.
6. Meal tickets must be safeguarded at all times.

## ACCOUNTING FOR PETTY CASH

State institutions may keep small amounts of petty cash on hand to facilitate the day to day operation of the institution. Petty cash funds of a local fund or Special Disbursing Officer fund should be no more than reasonably necessary. The purpose of the disbursement must comply with the restrictions for the appropriate fund and must be adequately documented.

Petty cash should be replenished as necessary. When needed, a check should be made payable in the name of the person going to the bank. In no case should a check be made payable to cash, resulting in the check becoming "bearer paper."

## EXEMPTION FROM SALES TAX

Generally, purchases from any of an institution's accounts are exempt from sales tax and the State's tax exempt number should be used. However, if an employee makes a purchase with petty cash or is to be reimbursed from any of the institution's accounts, the purchase is not tax exempt and the employee's reimbursement should include sales tax paid.

## FEDERAL GRANTS

Certain institutions receive some type of federal financial assistance. The federal assistance can come directly from the federal government or as a subgrant through another agency. Accounting procedures for federal grants are more specifically addressed in Chapter 12, "Accounting for Federal Programs."

As previously stated, there is no authority to account for funds outside of the Auditor of State system. Accordingly, federal grants may not be accounted for through the institution's local bank accounts.

## COUNTY CLOTHING REIMBURSEMENTS

Indiana Code 12-24-6 provides for reimbursement from counties to state mental institutions for clothing provided to indigent patients. These collections are to be deposited into the County Clothing Fund (1000/422000/214020). Collections should not be deposited as a refund of expenditure to the institutions operating account.

## UNCLAIMED PROPERTY

### Trust Funds

Indiana Code 32-34-1-20, 32-34-1-26, and 32-34-1-27 provide that Trust Fund checks which have been issued and are outstanding for one year after they were written are presumed to be abandoned and are to be remitted to the Attorney General's Office as unclaimed property. Contact the Attorney General's Unclaimed Property Division for forms and instructions for transfer.

### Recreation Funds

Recreation Fund checks outstanding for two years after December 31 of the year they were written are to be returned to the balance of the Recreation Fund (Indiana Code 4-10-10).

## EMPLOYEE FUNDS

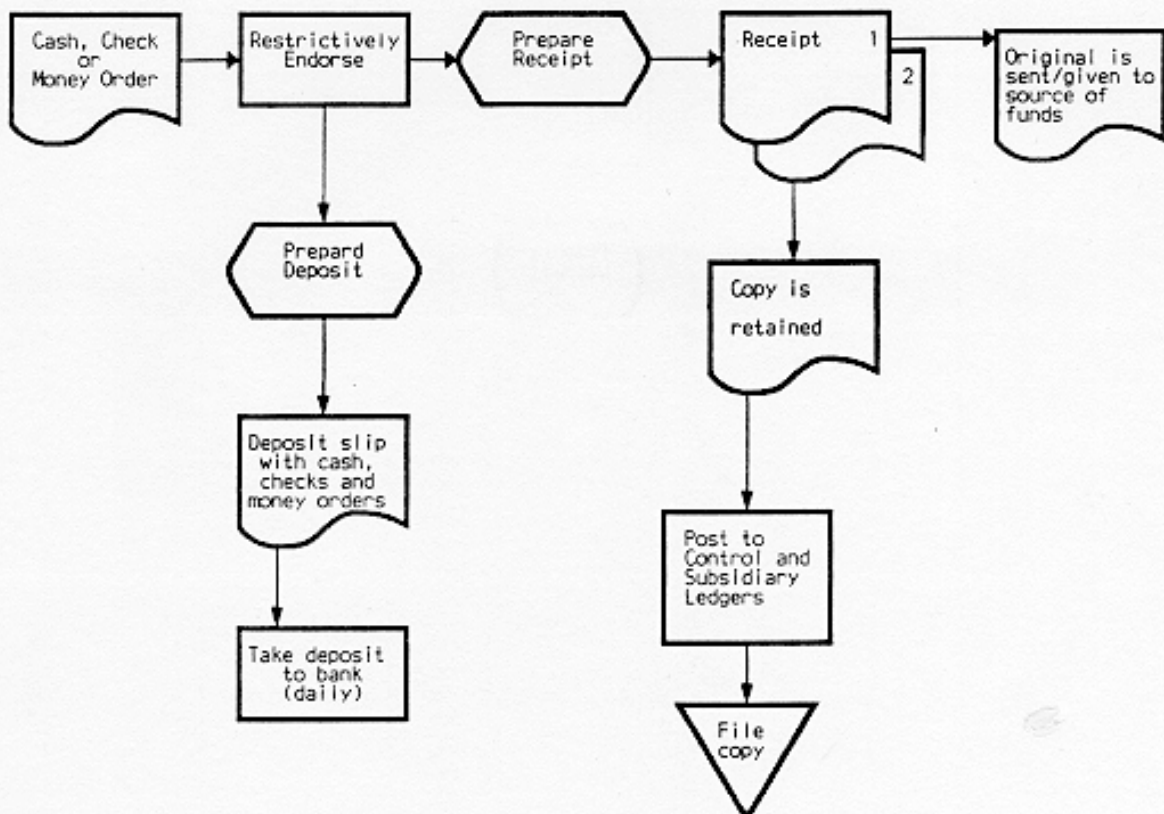
Employees of institutions occasionally raise monies to purchase items of a personal nature such as

flowers or employee appreciation items. These employee funds may not be accounted for through the accounts of the institution.

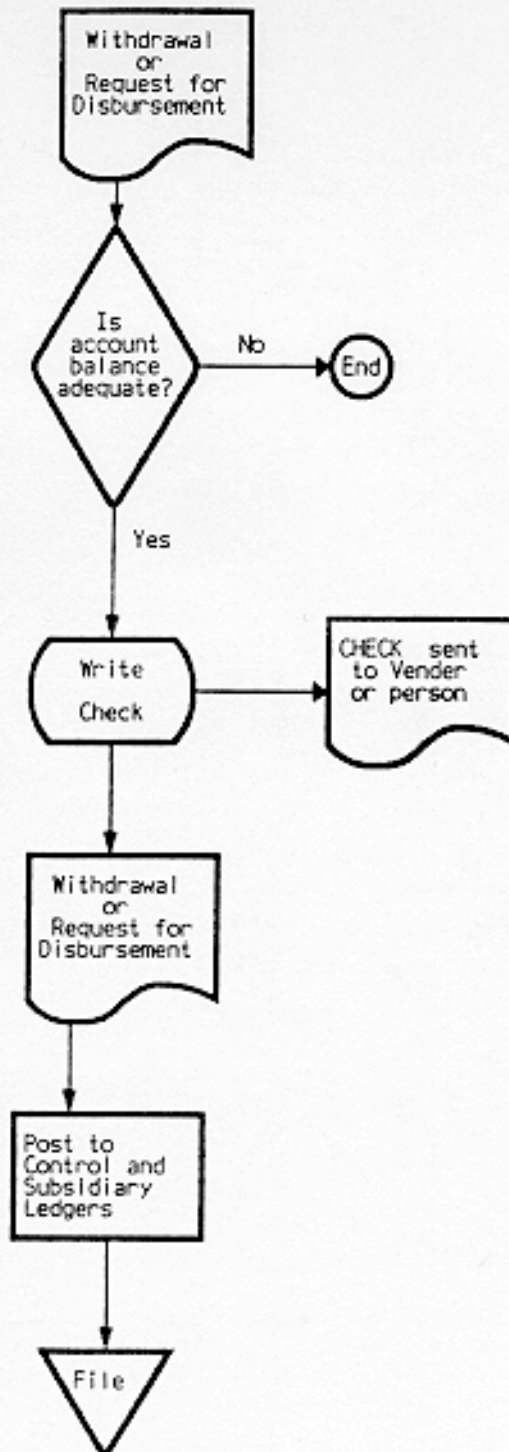


## RECEIPTS

Trust and  
Recreation  
Funds

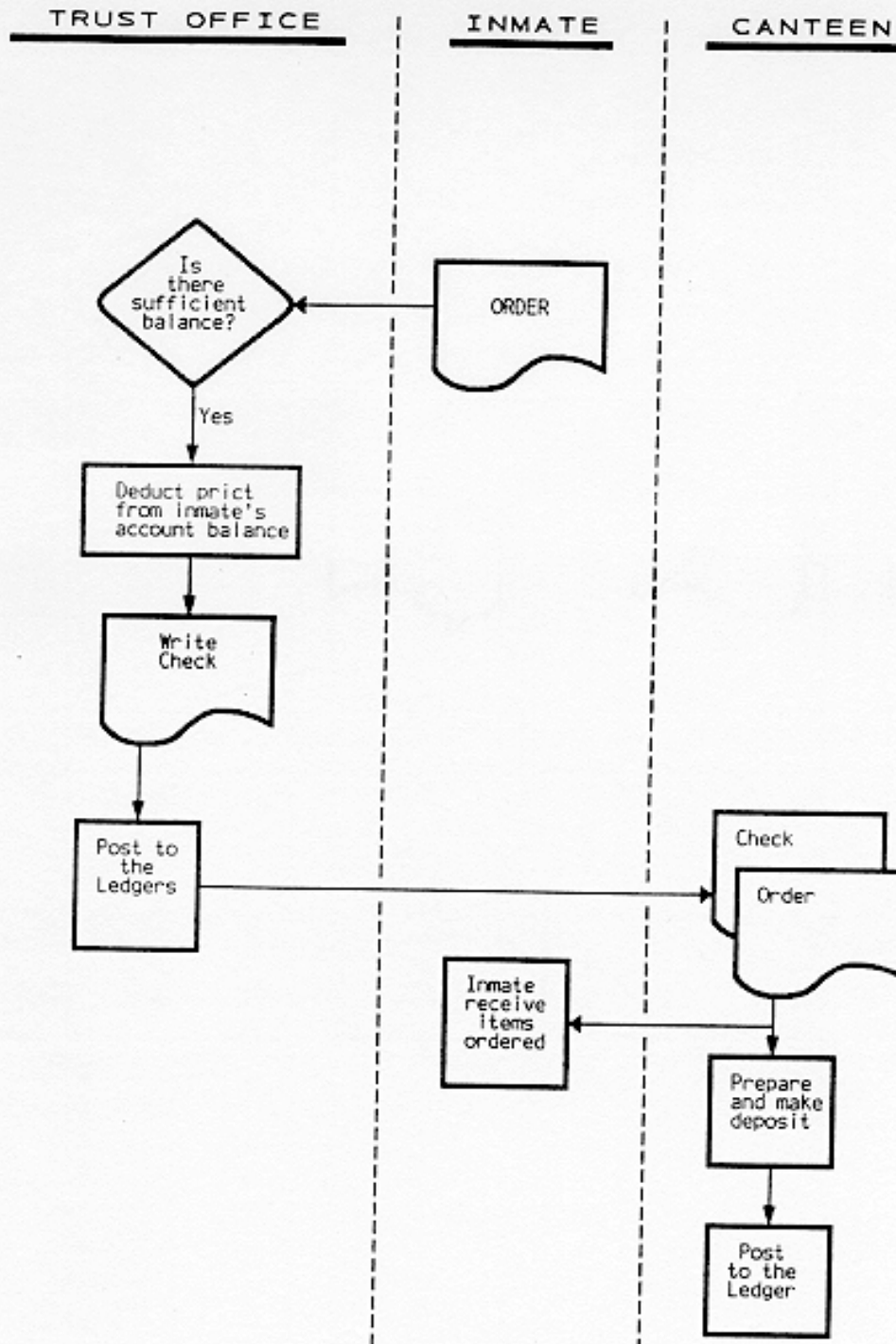


## TRUST FUND DISBURSEMENTS



# COMMISSARY FUND

DEPARTMENT OF CORRECTION





## CAFETERIA FUND

